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Message Text

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ACTION ARA-14

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SUBJECT: RECENT NATIONAL MONETARY COUNCIL DECISIONS

REF: BRASILIA 4921

1. SUMMARY. IN A NATIONAL MONTARY COUNCIL MEETING JUNE 24, 1978, A SERIES OF MEASURES WERE ADOPTED INCLUDING: ANOTHER FREEZE ON THE CONVERSIONA OF FOREIGN LOANS INTO CRUZEIROS, REGULATIONS CONCERNING THE CONVERSION OF FOREIGN LOANS INTO EQUITY CAPITAL, AND AN EXPANSION OF UP TO 550 MILLION CRUZEIROS FOR THE POLOCENTRO PORJECT IN THE NORTHEAST. END SUMMARY.

2. FREEZE-WITH MONEY SUPPLY INCREASES RUNIING WELL AHEAD OF MONETARY BUDGET TARGETS, THE NATIONAL MONETARY COUNCIL REPEATED ITS ACTION OF NOVEMBER OF LAST YEAR AND FROZE THE CONVERSION OF FOREIGN LOANS INTO CRUZEIROS FOR 30 DAYS. FINANCE MINISTER SIMONSEN, IN COMMENTS TO THE PRESS, EMPHASIZED THAT THE 30-DAY PERIOD MAY BE EXTENDED IF NECESSARY. CENTRAL BANK OFFICIALS INDICATED TO ECONOFFS THAT THE MEASURE WAS TAKEN BECAUSE AN UNEXPECTEDLY LARGE INFLOW OF FOREIGN LOANS HAVE BEEN HELPING PUSH MONEY SUPPLY INCREASES OVER TARGET
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LEVELS. IT IS ESTIMATED THAT UNTIL THE END OF MAY, 1978, APPROX-IMATELY 3.9 BILLION DOLLARS IN EXTERNAL LOANS HAVE ENTERED BRAZIL, COMPARED TO 1.5 BILLION IN THE SAME PERIOD LAST YEAR. GOB OFFICIALS WISH TO TAKE ADVANTAGE OF THE AVAILABILITY OF FOREIGN CAPITAL AND THE IMPROVED TERMS OF THE LOANS AND USE THE OPPORTUNITY TO BUILD UP RESERVES, PRESUMABLY IN CASE MONEY MARKET TIGHTENS LATER IN THE YEAR. THE NEW REQUIREMENT TO MAINTAIN CRUZEIRO DEPOSITS EQUAL TO

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THE AMOUNT OF THE LOAN WILL TEMPORARILY STERILIZE AN ESTIMATED 8 BILLION CRUZEIROS IN EXTERNAL LOANS AND DELAY THEIR ENTRANCE INTO THE MONEY SUPPLY. THE MEASURE IS CONSIDERED PARTICULARLY IMPORTANT AT TTHIS TIME AS THE APPROVAL OF DISASTER RELIEF FUNDS TO FARMERS DAMAGED BY THE RECENT DROUGHT IS EXPECTED TO PUT FURTHER PRES SURE ON MONEY SUPPLY GROWTH.

3. CONVERSION OF FOREIGN LOANS --THE COUNCIL APPROVED REGULATIONS FOR THE CONVERSION OF EXTERNAL LOANS TO EQUITY CAPITAL, FORESEEN IN DECREE LAW 1.598 IN DECEMBER 1977. THE PRIMARY FEATURES OF THE REGULATIONS INCLUDE:
A. COMPANIES OR INDIVIDUALS INTERESTED IN CONVERTING FOREIGN LOANS TO EQUITY CAPITAL MUST REGISTER THE LOANS BEFORE DECEMBER 31ST 1978.

B. LOANS WILL BE CONVERTED INTO NON-VOTING PREFERRED STOCK.

C. DIVIDENDS WILL BE APPROVED BY THE CENTRAL BANK BASED ON: (1) THE COMPATIBILITY WITH PREVAILING INTERNATIONAL MONEY MARKET RATES, AND (2) THE COMPATIBILITY WITH INTEREST RATE IN THE CONVERTED LOAN.

4. FINALLY, THE COUNCIL APPROVED AN EXPANSION OF UP TO 550 MILLION CRUZEIROS FOR THE POLOCENTRO AGRICULTURAL PROJECT IN THE NORTHEAST. ONE HUNDRED MILLION CRUZEIROS WILL BE RELEASED FOR IMMDIATE USE.
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